

the benefits of competition through increased services and improved telecommunications facilities and infrastructure at reduced rates.” (HB 2728 § 1(a)(b) et seq.). The interpretation of a statute is a question of law, and it is the function of the court to interpret a statute to give it the effect intended by the legislature. It is a fundamental rule of statutory construction, to which all other rules are subordinate, that the intent of the legislature governs if that intent can be ascertained. City of Wichita v. 200 South Broadway, 253 Kan. 434, 855 P.2d 956 (1993). The intent of the State Act can be ascertained. It is clear the State Act promotes consumer access to a full range of telecommunications services, including advanced telecommunications services that are comparable in urban and rural areas throughout the state of Kansas. (HB 2728 § 1(c) et seq.). The Commission concludes that the intent of the State Act is clear and does not violate the Federal Act.

7. YELLOW PAGES PROFITS ADJUSTMENTS

200. The Commission believes suggestions that yellow pages profits be considered in this proceeding are misdirected. The current proceeding is not a rate case, where issues such as the appropriate treatment of yellow pages profits would be at issue. The Commission is not making a finding with respect to the inclusion of yellow pages in a traditional rate of return proceeding. The issue is not relevant in this docket.

8. INTERIM ACCESS PLAN

201. On January 22, 1996, the Commission issued an Order in Docket No. 190,383-U, *In the Matter of a General Investigation Into Access Charges*. In that

Order, the Commission determined that "the Interim Plan for access charges should be for a period to include two adjustments, expiring March 2, 1997, or until such other order is issued by the Commission". (Docket No. 190,383-U, Order dated January 22, 1996, at 10). Staff testified that the Commission "will need to include in its order whether the Common Carrier Line (CCL) should be adjusted, thereby decreasing the amount which will need to be rate rebalanced." Staff stated the time period for the CCL and the revenue neutral determinations is the same: twelve (12) months ending September 30, 1996. (Lammers, Tr. at 2966-40).

202. The State Act provides the same twelve (12) month period ending September 30, 1996, as specified in the Interim Access Plan and that the transition be revenue neutral. The Commission is implementing an access reduction plan in this Order. (See Section III.C. of this Order). Therefore, the Commission hereby replaces the January 22, 1996 Order in Docket No. 190,383-U on Interim Access Plan with regard to the CCL rate adjustment.

9. ALEC ACCESS RATES

203. Staff raised a concern regarding the access rates charged by ALECs to the IXC's. (Lammers, Tr. at 2966-21). The ALEC has a monopoly situation with regard to access service for the local exchange customers which it serves. An ALEC could offer its customers equal access to all the IXC's and then charge the carriers exorbitant rates per MOU access service. But the IXC's who are required to serve would be trapped, because they are required to have statewide average rates and would not be

able to pass these rate disparities on to specific ALEC customers. (Lammers, Tr. at 2966-21).

204. The Commission is mindful of the concern raised by Staff. In this Order, the Commission is lowering access charges. The Commission favors competition, however, it will not allow abusive pricing practices by ALECs.

10. APRIL 4, 1996 ORDER RE: UNIVERSAL SERVICE ISSUES

205. Parties to this proceeding requested reconsideration of several issues in the Commission's April 4, 1996 Order which addressed several universal service issues. On May 10, 1996, the Commission issued an order on reconsideration and granted a hearing on the following issues: rate rebalancing, access rate reduction, EUCL, assessment on toll minutes of use, additional and subsequent rate rebalancing, support recipients, initial support, and managing future support. In this Order, the Commission has made findings as a result of the State Act, the Federal Act, and the evidence of record. The remaining issues in the April 4, 1996 Order stand as originally ordered.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

All local exchange carriers shall reduce intrastate access charges to interstate levels. Rates for intrastate switched access, and the imputed access portion of toll, shall be reduced over a three-year period for SWBT and United with the objective of equalizing interstate and intrastate rates in a revenue neutral. ILEC access charges will reduce to interstate parity on March 1, 1997, as set forth in this Order.

Every telecommunications carrier, telecommunications public utility and wireless telecommunications service provider that provides intrastate telecommunications services shall contribute to the KUSF through an equal assessment on all intrastate retail revenue amounts as set forth in this Order.

The amount of the assessment attributed to the LECs' local service which may be recovered on a flat per line basis will approximate \$3.21 per month for SWBT customers over three years, and slightly less than \$3.00 per month for United customers over three years. The rates for pay phone calls shall be \$.35 and the free call allowances for directory assistance shall be eliminated. These rates shall go into effect March 1, 1997, as set forth in this Order.

ILECs' amount would have resulted on an equal assessment basis in a per line increase from \$1.42 to \$3.23 per month. However, the ILECs did file a Stipulation and Agreement (S&A) which averages the impact on ILEC customers much the same as the flow through averages the impact on SWBT and United customers. Therefore, the Commission hereby approves the S&A with some clarifications as set forth in this Order.

The Commission hereby determines that the funding for the KRSI and Telecommunications Access Program (TAP) shall be collected by the KUSF administrator as part of the KUSF as set forth in this Order.

The Commission hereby adopts a KLSP plan in which all local service providers will participate.

The Commission hereby approves and renames the pricing flexibility plan "Competitively Flexible Pricing." The Competitively Flexible Pricing Plan combines range of rate-fixed, range of rate-flexible, as well as other revisions and suggestions. In determining this plan, the Commission has balanced the public policy goals of encouraging efficiency and promoting investment in a quality, advanced telecommunications network in the State of Kansas as set forth in this Order.

The Commission hereby adopts GDPPI-CW and a three percent total factor productivity (TFP) offset for the price cap adjustment formula. The Commission hereby determines a higher TFP was inappropriate and prohibitive given the required investment in infrastructure as set forth in this Order.

These and other issues are determined as specifically set forth in this Order.

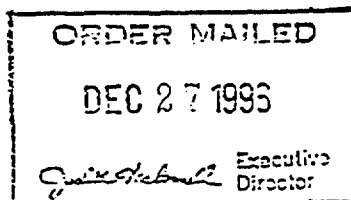
A party may file a petition for reconsideration of this Order within fifteen (15) days of the service of this Order. If this Order is mailed, service is complete upon mailing, and three (3) days may be added to the above time limit.

The Commission retains jurisdiction of the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary and proper.

BY THE COMMISSION IT IS SO ORDERED.

McKee, Chr.; Seltsam, Com.; Wine, Com.

Dated: DEC 27 1996



Judith McConnell
Executive Director

MLC

GLOSSARY

ALEC	Alternative Local Exchange Company
BNF	Basic Network Function
CCL	Common Carrier Line
CPILFE	Consumer Price Index Less Food and Energy
EAA	Exchange Access Arrangements
EUCL	End User Common Line Charge
FUSHCF	Federal Universal Service High Cost Funds
GDPPI	Gross Domestic Product Price Index
GDPPI-CW	Gross Domestic Product Price Index Chain Weighted
HNAP	Home Numbering Area Plan
ILEC	Independent Local Exchange Company
IXC	Interexchange Carrier
KLSP	Kansas Lifeline Service Program
KRC	Kansas Relay Center
KRSI	Kansas Relay Services, Inc.
KUSF	Kansas Universal Service Fund
LEC	Local Exchange Company
LRIC	Long Run Incremental Costs
MOU	Minutes of Use
NECA	National Carriers Association
PCI	Price Cap Index

PCS	Personal Communications Service
TAP	Telecommunications Access Program
TFP	Total Factor Productivity
TSLRIC	Total Service Long Run Incremental Cost

H 7th Attachment H

STATE CORPORATION COMMISSION

DEC 01 1996

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BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of a General)	
Investigation into Competition)	Docket No. 190,492-U
within the Telecommunications)	94-GIMT-478-GIT
Industry in the State of Kansas.)	

STIPULATION AND AGREEMENT

WHEREAS the parties hereto are independent local exchange telephone companies (hereinafter "ILECs") providing local telecommunications services to business and residential customers in Kansas under certificates of convenience and authority issued by the State Corporation Commission of Kansas (hereinafter "Commission"), and

WHEREAS, each party hereto is a "rural telephone company" as defined in Section 2(c), Chapter 268, 1996 Session laws of Kansas, (hereinafter the "Kansas Act"), and

WHEREAS, the Kansas Act creates the Kansas Universal Service Fund ("KUSF"); directs the Commission to require every telecommunications carrier, telecommunication public utility and wireless telecommunication services provider that provides intrastate telecommunications service to contribute to the KUSF, on an equitable and nondiscriminatory basis; and authorizes such contributors to recover such contributions from their respective customers, and

WHEREAS, the Commission has under consideration issuance of Orders in Phase II of its Docket #190,492-U, entitled *In the Matter of a General Investigation*

(5)

into Competition in the Telecommunications Industry in the State of Kansas,
which Orders may include specific provisions for these parties' contributions to KUSF and recovery thereof from their customers, and

WHEREAS, some parties hereto are subject to the provisions of Section 6(d) of the Kansas Act requiring an increase in local service rates or alternatively a partial loss of KUSF funding, and

WHEREAS, the parties desire to continue their respective efforts to provide high quality telecommunications services to their customers at reasonable and affordable rates,

NOW THEREFORE, in consideration of the mutual agreements and undertakings hereafter set forth, and subject to the approval and order of the Commission, the undersigned companies agree and stipulate as follows:

1. All terms of this Stipulation and Agreement are contingent upon and subject to final determination by the State Corporation Commission of Kansas that the Kansas Universal Service Fund (KUSF) will include contributions by each ILEC of a percentage of net revenues. As reflected in the record of Phase II hearings in Docket #190,492-U, the parties hereto have supported and continue to support different methods of funding the KUSF, but believe funding through a percentage of net revenues could be reasonable if such funding were to include the terms of this Stipulation and Agreement.

2. The amount of the contribution of each of these parties to the KUSF shall be determined by the KUSF Administrator; the administrator shall determine contribution responsibility by (1) applying a uniform percentage to the net retail

intrastate telecommunications revenues of each ILEC, (2) adding together the result for all ILECs, and (3) allocating responsibility for the result among all ILECs proportionately based on the number of access lines served by each ILEC.

3. The total of contributions of these parties to the KUSF, each of which contribution is recoverable from its customers by the company making the same, shall be subject to a uniform opportunity for recovery from all customers of all parties hereto. In order to determine the amount of such uniform opportunity the total of all ILEC contributions to KUSF should be added together, and the resulting sum divided by the total number of access lines served by all parties hereto. Each ILEC may then achieve recovery of all or any portion of its KUSF contribution, at its sole election, by assessment of an amount not greater than that result, applied equally to each of its access lines.

4. In order to avoid multiple simultaneous increases in charges and the possibility of "rate shock" to customers of parties subject to the provisions of Section 6(d) of the Kansas Act, the recovery of sums from such parties' customers as set forth in Paragraphs 1 and 2 hereof shall be deemed increases in such parties' monthly basic local residential and business service rates and shall constitute compliance with the provisions of Section 6(d) of the Kansas Act, to the end that those parties to this agreement whose local residential service rates and/or local business service rates are below the statewide rural telephone company average rates for such services will be deemed to have increased such rates by the amount of per-line recovery as herein provided; any reduction of KUSF funding for any such company pursuant to the terms of Section 6(d) shall be equal to the amount of local

rate increases necessary to achieve statewide rural telephone company average residential and/or business rates after inclusion of the per-line recovery as a portion of basic local rates, and any such reduction shall not occur until the per-line monthly amount of KUSF contribution recovery is exhausted at the rate of one dollar (or remaining fraction thereof) increase per year beginning March 1, 1997.

5. Upon execution by all Kansas rural telephone companies, as defined in Section 2(c), Chapter 268, 1996 Session Laws of Kansas, this stipulation and agreement shall be submitted to the Commission for approval and adoption by order in its Docket #190,492-U. In the event one or more of such companies elects not to participate herein such submission shall occur only by unanimous consent of the participating companies, in which case the terms hereof shall not be applicable to the company or companies not participating herein.

6. All provisions of this stipulation and agreement are interdependent, and failure or refusal of the Commission to approve and adopt any portion hereof shall cause a rescission of the entirety of this stipulation and termination of this agreement by all parties hereto. This stipulation and agreement is not intended to suggest or represent and does not constitute acquiescence or agreement by any party to adoption by the Commission of less than the entirety of the terms hereof.

7. Each party hereto reserves all rights to oppose any order of the Commission in its Docket 190,492-U adopting less than the entirety hereof, and to support or oppose any provision of any such order not within the scope of this stipulation and agreement; such rights include without limitation the right to seek reconsideration, modification or amendment of any such order and the right to seek

judicial review of any such order as by law provided.

8. This agreement and execution hereof may take the form of multiple copies, each of which may bear the execution of one or more but fewer than all of the parties thereto. The substantive provisions of each such copy shall be deemed an original, and each of such copies when accompanied by originals or copies of the execution of all parties hereto, shall be effective as the original agreement of all parties.

IN WITNESS WHEREOF the parties hereto, each by its respective officer, manager or agent authorized in the premises, have set their hands on the date shown for each party.

Independent Telecommunications Group, Columbus et al.:

Jim Dahman, Manager, Columbus Telephone Company, Inc.

David Cunningham, President, Cunningham Telephone Company, Inc.

Robert Koch, President, H&B Communications, Inc.

Robert Baldwin, President, Home Telephone Company, Inc.

Harry Weelborg, Manager, Moundridge Telephone Company, Inc.

Ramon Parker, President, South Central Telecommunications of Kiowa, Inc.

Ramon Parker, President, South Central Telephone Association, Inc.

Jesse Gailey, President, Totah Telephone Company, Inc.

Michael J. Foster, President, Twin Valley Telephone, Inc.

Junior L. Clark, President, Wamego Telephone Company, Inc.

Robert Grauer, President, Wilson Telephone Company, Inc.

Woodrow W. Graber, President, Zenda Telephone Company, Inc.

State Independent Alliance:

Terry O'Neil, General Manager, Blue Valley Telephone Company

Jerry James, General Manager, Craw-Kan Telephone Cooperative, Inc.

Travis Boaldin, Vice President, Elkhart Telephone Company, Inc.

Arlyn C. Solomon, General Manager, Golden Belt Telephone Association

Robert Ellis, President, Haviland Telephone Company, Inc.

Gene Morris, Vice President, JBN Telephone Company, Inc.

Greg Aldridge, General Manager, KanOkla Telephone Association, Inc.

Harry Lee, Jr., President and General Manager, LaHarpe Telephone Co., Inc.

Larry E. DeWitt, General Manager, Madison Telephone Company, Inc.

Donald D. Stowell, General Manager, MoKan Dial, Inc.

Frank Carlton, President, Mutual Telephone Company

Loyal Lay, General Manager, Peoples Mutual Telephone

Richard Veach, General Manager, Pioneer Telephone Association, Inc.

Gilbert Crouse, General Manager, Rainbow Telephone Cooperative Assn., Inc.

Larry Sevier, General Manager, Rural Telephone Service Company, Inc.

Elizabeth Kayser, Vice President & General Manager, S & A Telephone Company

Steve Richards, General Manager, S & T Telephone Coop. Assn., Inc.

Kendall Mikesell, Vice President, Southern Kansas Telephone Company, Inc.

Pat Morse, Vice President/General Manager, Sunflower Telephone Co., Inc.

Craig Mock, General Manager, United Telephone Association, Inc.

Arturo Macias, General Manager, Wheat State Telephone, Inc.

Appendix A

Rural Entry Guidelines

- Applicant must be certificated by the Commission. (K.S.A. 66-131)
 - Technical expertise
 - Financial capability
 - Managerial expertise
- Applicant must meet the requirements to qualify as an "eligible telecommunications carrier" (Federal Act section 214(e)(1); State Act section 5(c))
 - Must offer to provide service to all customers in the rural telephone company study-area as defined by the FCC.
 - Must advertise the availability and charges for service using media of general distribution.
- Applicant must make a bona fide request to the ILEC for interconnection services or network elements. (Federal Act section 251(f)(1); State Act section 5(a))
- Applicant must provide notice of the bona fide request to the Commission. (Federal Act section 251(f)(1)(B))
- Has the ILEC been granted an exemption under the Federal Act section 251(f)(2), if yes inquiry terminates - new entrant cannot provide service until suspension/modification expires, if no continue.
- The Commission must inquire whether:
 - the request is unduly economically burdensome for the ILEC;
 - the request is technically feasible; and,
 - the request is consistent with section 254 (preservation of universal service). (State Act section 5)

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Timothy E. McKee, Chair
Susan M. Seltsam
John Wine

In the Matter of a General)	
Investigation Into Competition)	Docket No. 190,492-U
within the Telecommunications)	94-GIMT-478-GIT
Industry in the State of Kansas.)	

ORDER ON RECONSIDERATION

NOW the above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission). Having examined its files and records, and being duly advised in the premises, the Commission finds and concludes as follows:

I. Background

1. On December 27, 1996, the Commission issued an order in the above captioned docket.

2. On January 14, 1997, the following parties filed petitions for reconsideration: Southwestern Bell Telephone Company (SWBT), The Citizens' Utility Ratepayer Board (CURB), Kansas City Fiber Network and Multimedia Hyperion Telecommunications (KC Fiber), AT&T Communications of the Southwest, Inc. (AT&T), Sprint Spectrum, L.P., CMT Partners (CMT), Independent Telecommunications Group (Columbus) and the State Independent Alliance, Mercury Cellular, and Mountain Solutions, Inc. Mercury Cellular filed a petition for reconsideration although it was not a party to the docket. The Commission is unable to consider petitions for reconsideration from non-parties. K.A.R. 82-1-225.

However, the issues raised by Mercury were raised by other parties and were considered.

3. On January 24, 1997, SWBT filed a response to several of the petitions for reconsideration.

4. On December 12, 1997, the Commission received by letter Council Grove Telephone Co.'s acceptance of the Independent Telephone Company Stipulation and Agreement. On August 23, 1996, Mountain Solutions, Inc. filed an application to intervene. On September 12, 1996, the Commission issued an order granting Mountain Solutions, Inc. intervention. The Order should be amended to include Mountain Solutions, Inc. as a party.

II. Discussion

5. The petitions for reconsideration will be addressed on an issue-by-issue basis.

A. Price Can Issues

6. Productivity Factor: SWBT and CURB request reconsideration of the productivity offset (X-factor), of 3 %, established in the December 27, 1996 Order. SWBT asserts the X- factor set in the Order is too high for the following reasons:

a. Empirical evidence demonstrates the nationwide TFP differential is 2.2-2.5%. The average offset is 2.2% in states with infrastructure requirements.

b. Adoption of a 3% factor fails to balance efficiency and investment as required by the State Act, and will constrain investment, jobs and economic development in the state.

c. Unrebutted evidence shows that inter and intra-state access services have much higher growth rates than the intrastate services that are subject to the price cap.

d. The 0.4 input price differential adopted by the Commission was not subject to cross-examination because the Selwyn/Kravtin studies supporting it were only produced at the very end of the proceeding. SWBT includes information that the California PUC found that the input price differential in the Kravtin/Selwyn study lacked support in the evidence and was not statistically different from zero. SWBT adds that the last 5 years of data in the study showed a 0.5 % greater LEC input price growth than for the general economy.

e. Recent interexchange carrier price increases are an indication of increased costs and manufacturers have announced a 15% increase in the cost of fiber optic cable. The State Act requires fiber connection between central offices.

f. The adoption of a competitive services subbasket and the failure to automatically deregulate price when there is one alternative provider, as well as the service by service imputation requirement constrain SWBT and require a lower TFP factor.

7. CURB's reconsideration petition asserts that the productivity factor is too low for the following reasons:

a. The 5.3% productivity factor better reflects current and forward-looking telecommunications trends and continued declining industry costs which are equally applicable to local and interstate services.

b. There is no evidence the 5.3% productivity offset would not encourage efficiency and promote investment.

8. Determination of an appropriate productivity offset is difficult. As CURB notes the evidence ranged from a low of 1.25% to above 5%. The Commission finds that the record evidence does not support a productivity offset in the upper part of the range. Evidence was clear that the difference in growth rates between interstate access service to which the 5.3% offset applies and local services is significant. The Commission further notes that the FCC revises the interstate offset yearly. In its reconsideration petition SWBT provides a thorough analysis of the record in light of new information. The Commission specifically notes the recent increase in the cost of fiber optic cable in view of the requirement of K.S.A. 1996 Supp. 66-1,187(q) to link central offices with fiber optic cable or the technological equivalent. CURB's petition reiterates arguments rejected in the Order. CURB claims there is no evidence demonstrating that a 5.3% X-factor will not promote efficiency and investment, but cited to no evidence that it will.

9. On the basis of SWBT's petition the Commission believes that the 3% X-factor may be too high for the price cap methodology, particularly when considering the infrastructure requirements imposed by the state legislation. The Commission notes that SWBT's petition also documents recent price increases by interexchange carriers, which must be a result of increased cost.

10. Staff's memorandum recommended that the Commission set the X-factor in the 2.2-2.5% range. The evidence shows that the average X-factor is 2.2% in

states with an infrastructure investment requirement. Weisman Tr. 2102. Since 2.2% is the average, states have clearly set both higher and lower factors. The Commission does not believe that the evidence justifies a lower X-factor. It should be set so as to provide a challenge to the company to be as efficient as possible. SWBT witness Bernstein in his rebuttal exhibit 2 established an LEC average X-factor of 2.5% and an X-factor for the economy in general of 0.2%, resulting in a total factor productivity differential of 2.3%. The Commission finds that 2.3% is an appropriate X-factor and grants SWBT's reconsideration petition to lower the X-factor, while denying CURB's petition to increase it.

11. Basket Three Subbaskets: AT&T requests the Commission to reconsider its decision not to group Basket Three services in subbaskets with individual price caps. AT&T asserts the price cap mechanism acts as a revenue cap allowing for cross subsidization of the more competitive services by monopoly services, because the basket contains competitive/discretionary and monopoly/essential services. Establishment of a limited number of subbaskets would preclude cross-subsidization which erects economic barriers to competition in violation of the Federal Act.

12. There was considerable evidence provided regarding grouping of Basket Three services in subbaskets. The Commission considered this evidence in its initial decision. The Commission is mindful of the potential for cross subsidization. To guard against the possibility of cross subsidization, the Commission created the Competitive SubBasket, into which competitive services

may be moved. Those competitive services will then be subject to a separate price cap and price floor. Staff's Memorandum recommended that this measure was sufficient to protect against cross subsidization.

13. The Commission finds that the services in Basket Three, with some exceptions, are competitive in nature or optional. The Commission therefore sees less need to constrain their pricing. The establishment of the competitive services subbasket, with its separate price cap and price floor is sufficient to guard against cross subsidization. The Order is affirmed with respect to this issue.

14. Guidelines for Reducing Regulation: SWBT asserts the order does not establish guidelines for reducing regulation as required by Section 6(m) (K.S.A. 1996 Supp. 66-2005(m). SWBT argues that the competitive flexibility plan established by the order does not provide a clear road map to deregulation for LECs to follow. SWBT asserts the competitive flexibility plan will require multiple hearings on a single issue--the competitiveness of each service in each exchange--and that it will increase rather than decrease the regulatory burden.

15. In its Memorandum Staff advised the Commission it believes SWBT misunderstands the competitive flexibility plan. A price cap regulated company may petition for inclusion of a service in the competitive subbasket on a statewide basis and also for a group of services in one particular exchange (defined in paragraph 64). Staff informed the Commission it does not anticipate that hearings would be required in most instances. Staff believes the plan meets the requirements of the legislation.

16. The Commission agrees with Staff that the competitively flexible plan, not only is intended to allow price cap regulated companies the necessary flexibility in an increasingly competitive business environment, but will in fact operate to provide that flexibility. Staff's interpretation of how the plan is intended to operate is correct. The Commission certainly does not anticipate holding hearings on every service in every exchange. The Commission finds that the plan complies with the law and will have the intended effect of reducing regulation of services that are in transition to deregulation. The order is affirmed.

B. KUSF

17. Business Lines: Columbus asserts the Commission should allow KUSF funding for business lines. Columbus argues business lines should be included because LEC access rates provide support for costs associated with both residential and business lines. Columbus also states the Federal Act requires comparable services in rural and urban areas at comparable prices. Columbus argues if business lines are not included, cost-based rates for urban business lines will not be comparable to cost-based rates for rural business lines. Columbus also asserts KUSF funding for business lines is in the public interest because businesses have the same health and safety needs as residential customers, pass-through of costs for business lines to business customers will be a disincentive to economic development, and increasing the cost of business service is not an appropriate way to protect rural companies from cherry picking. AT&T argues the Commission should allow KUSF funding for business lines. AT&T generally agrees business service rates should be

based on cost. However, AT&T asserts SWBT will be able to internally subsidize rates and states the denial of KUSF funding for business lines is discriminatory.

18. The incumbent companies remain revenue neutral with respect to the access rate rebalancing. They lose no support for current lines in service. The question is whether a net gain in business lines should qualify for a per line subsidy. The Commission was advised that the Joint Board in the federal universal service proceeding recommended universal service funding for one residential and one single line business line. The Commission believes the KUSF was designed to assure that all Kansans have access to universal service at an affordable price and was not intended to provide subsidies to businesses, especially not large businesses which require more than a single line. The Commission finds, however, the arguments presented justify KUSF funding for single line business lines at least until the FCC's universal service funding decision is issued and its impact is assessed. Single line business lines qualify for a \$3.50 EUCL, as do residential lines in the federal jurisdiction. The Commission believes the KUSF was not enacted to promote economic development and that it would be inappropriate to require telephone companies and customers to fund economic development on the basis of rates for service. Therefore, the Commission grants the requested relief to the extent set forth above.

19. , Kansas Universal Service Fund Mechanism: AT&T, K.C. Fiber and CURB assert the universal service mechanism does not consider the cost of providing universal service, but merely spreads the access reductions across all